Subcontract Management
One of JDE's Hidden Gems

By Ross Copeland

Editor's Note: In this article, Ross Copeland presents a solid business case for using Subcontract Management, then provides a demonstration through setup instructions, screen shots, and other illustrations to walk us through the process from contract through completion. You will see how to process holdbacks and holdback releases, and how to handle tax requirements along the way.

Introduction

One of the hidden gems in the JD Edwards suite of products is Subcontract Management. Having said that, there's often a reluctance to use the module stemming from a misunderstanding of the application's capabilities, its purpose, or the cry from the business users that "we're different" or we have a "better" process. In an age where "cost transparency" is the new buzz word, where litigation over non-compliance with contracts is a given, where legislative compliance with health and safety requirements is mandated, and governments want their share of the pie (love those taxes), how can you not use Subcontract Management?

The Business Purpose

Let's be clear, Subcontract Management can be used by any business, not just construction or development companies. Many businesses have internal projects, covering extended time periods, that require periodic payments based on specific milestones or conditions being met. Typically, the contract calls for the supply of services and/or the installation or goods depending on the nature of the contract. The contract specifies the scope and schedule of work, as well as the price and payment terms. Depending on the legal jurisdiction, there are often legal requirements to "hold back" a portion of each payment to the supplier pending compliance with certain governmental laws. The term "holdback: is also referred to as "retainage". For the purposes of this paper, they're the same. Over and above those legislative requirements, construction and development industry best practice is to "holdback" or retain some portion of each progress payment, pending successful completion of the project.

Example and Requirements

The best ways to explain all this is through a practical example. Let's say your company has a project to renovate your office complex. The architect has completed the design developed the statement of work that covers six months. You've completed the tendering process for the heating, ventilation and air conditioning (HVAC) component of the renovation using a quote tendering process based on the JD Edwards procurement module (a topic for another day) and awarded the contract to Stone Heating Co. for a total contract amount of $100,000 (excluding tax). You've decided to use the JD Edwards job cost module, and want to track committed costs against budget.

The office being renovated is in a location that has a local tax of 7% and a federal Value Added Tax (VAT) of 5%. Work starts on January 1st with two equal payments of $50,000 (before holdback and taxes). The first

payment is due February 15th, the second payment due April 30th. It's expected that all work will be completed by June 15th and that the holdback will be paid June 30th.

Based on the above, here's what we want to occur upon entry of the contract:

1. Proper routing of approvals.
2. Record the contract value as a committed cost against the appropriate account in our job.
3. Verify that there's sufficient budget to allow for entry of the contract.

Upon processing of each progress payment we want the system to:

1. Calculate the necessary holdback and related tax and record them to the correct accounts.
2. Relieve the committed amount by the amount of the actual payment.
3. Create necessary vouchers for payment, including necessary taxes.

Upon completion of the contract we want the system to:

1. Ensure the necessary submittals have been received before the holdback is released.
2. Ensure the correct amount is released from holdback, taking into consideration taxes.

Our summary for **each** of the first two payments (Feb 15th and April 30th respectively) is as follows:

		Amount	7% Local tax	5% VAT	Total Owing
Amount payable per contract	(a)	$50,000	$3,500	$2,500	$56,000
Holdback (20% per contract)	(b) = 20% * (a)	$10,000	$700	$500	$11,200
Net Payment	(c)= (a)-(b).	$40,000	$2,800	$2,000	$44,800

Table 1: Scheduled Progress Payments

We also know what the holdback payment (scheduled for June 30th) will be assuming the contractual and legislative conditions have been met.

	Amount	7% local tax	5% VAT	Total Owing
Holdback Amount	$20,000	$1,400	$1,000	$22,400

Table 2: Holdback Release

Setup Considerations

Business Units and Accounts

Some of the setup considerations are obvious. We're going to need a job and some accounts to record our costs in. For our example, we've set up project 104 – Office Renovations and we'll be using Cost Code 230005 HVAC and Cost Type 1360. On its own, the Chart of Accounts for jobs can have special considerations. Readers should review Richard Berry's JDEtips article on Job Cost Chart Accounts for an excellent discussion on the topic.

Aside from the usual financial accounts, such as bank accounts, trade payables, and related AAIs, we'll need some special purpose accounts related to holdbacks and taxes as follows:

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